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Rooted in Ethics

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Dr. Mohammad Nejatullah Siddiqi

Mr. President, Brothers and Sisters

It is heartening indeed to see that the subject of insurance has at last started getting the attention it deserves. Your Forum and the presence of distinguished scholars as well as practitioners in the field of Islamic insurance and banking is reassuring. I have come to learn and refresh myself on the subject. But in compliance with the wishes of the organisers, especially my friend Omar Fisher, I venture to make some observations which could provide a perspective to the other presentations and deliberations.

1. Economic Progress

Man has needs which he seeks to fulfil in ways available. One such need is exchange as no one can survive, much less live efficiently, on what he himself can produce. In the beginning there

was barter but it was problematic and inefficient. Soon some objects came to be used as means of payment. These could be carried over time, so we had 'money' serving as medium of exchange as well as store of value. Providing for future needs led man to invest in order to enlarge the scope of what could be done - that was money as 'finance'. As trade developed within and between regions and communities the role of finance increased and financial intermediation became a possibility with new promises. Modern banking spread with the social acceptance of bank credit, fractional reserve and paper currency, enabling an increasing population to cope with larger and larger volumes of trade and investment in a fast expanding world.

With each new development new risks appeared. The farther into future man looked the more uncertainty he encountered. Handling risk and uncertainty became an increasingly prominent aspect of economic life even for ordinary men and women. Early ways and means of handling risks and uncertainty took simple forms of cooperation between the near and the dear. Pooling, sharing, diversification all occurred within the framework of trust, reciprocity and mutuality. That was insurance / takaful.

As uncertainties increased and risk became more complex shifting risks to those willing to take

them (in expectation of gain, of course) and unbundling them into manageable parts took new forms. The earlier simple stratagem of insurance and coinsurance among people brought together by kinship or vocation or trade . yielded to more sophisticated arrangements open to wider groups of people. Sometime along this bumpy road man hit upon the Law of Large Numbers and the Law of Averages. This discovery reinforced a lesson learnt in antiquity: By coming together men could face risks and uncertainties they could hardly cope with individually. That I believe is the core idea behind insurance and takaful just as financial intermediation is the core idea behind banking. Both have had revolutionary impacts on economic progress, each in its own way.

2- Ethics

Running parallel to the saga of economic progress is another thread, the ethical imperative of doing things in a manner that does not harm others or violate social interests. Even though morality is a human need in the sense that man's felicity and ultimately his survival depends on ethical conduct, in reality ethical conduct does not always obtain. Men misbehave. They act in immoral ways, one harming other. Some violate public interest. Ultimately these end up harming themselves too. This necessitated reminders and warnings and a reaffirmation of ethical conduct. It also necessitated arrangements for information, its acquisition and dissemination as well as preventing its withholding where due. Prophets and saints, philosophers and statesmen, and many ordinary men and women of strong commonsense kept reminding and warning that economic activity must be informed by public purpose and a care for the interest of others along with serving the interests of the actor himself. They also emphasised truthfulness, the key to information.

Islam has legislated the minimum of morality necessary for human felicity, leaving for persuasion and voluntary compliance higher standards of morality which could make life better, more decent. Prohibition of riba (interest) and maysir (gambling) along with the strictures against telling lies, fraud and deception and breach of contract are the most relevant provisions of Shariah, insofar as economic activity is concerned. Given these, helping behaviour and regard for public interest could ensure good society so far as the economic aspect is concerned.

It is in this perspective that one should see how modern banking and insurance were handled by the Muslim peoples. When they came out from under colonial rule they scrutinised these arrangements in the light of Islamic laws and ethics. This was necessary as these artefacts had evolved into an alien ethos and planted in Muslim societies by rulers with little regard to the interests of these societies or their norms and values. Let us first see what the Muslim mind did to banking.

3. Islamic Banking

Beginning the middle of the twentieth century projects were launched to establish banking companies which would neither pay interest nor earn interest. Bank-depositor relation would be based on the depositor sharing the profit accruing as a result of the bank's profitable use of the deposits pooled together. On the asset side a number of ways were tried to earn profits including partnerships and profit-sharing (mudaraba) with businessmen. Many Islamic banks entered into business directly, buying and selling commodities, land or real estate. Experimentation soon led to what is currently the predominant form of Islamic finance, i.e. murabaha. In this mode of finance the bank buys something on the specific request of a client and sells it to that client at a price higher than the purchase price, to be paid after a period of time. Leasing and prepaid orders (salam / istisna) were also used as profitable employment of

the pool of deposits.

In a nutshell, the core idea behind commercial and investment banking, that of financial interemediation, was retained but the ethically repugnant practice of interest on loans was discarded. Within a short period of fifty years, the first half of which was devoted mainly to theory and model building, Islamic banking established itself as an alternative, claiming ethical superiority over conventional banking.

What is unethical about riba / interest to evoke such a response to interest-based banking from the Islamic civilization? The Quran (2:279) characterises it as unfair, as implied by the word zulm (oppression, exploitation, opposite of adl i.e. justice). Man's environment does not guarantee positive return to productive use of money capital as value productivities lie in the future surrounded by uncertainty and risk. Some risk is involved in the productive use of money capital which, in fairness, the supplier of money capital must share if he wants a share in the profit of productive enterprise. A loan seeking positive return must share the risk involved in its use, otherwise it is to be returned without increase. As argued by Islamic economists this unfairness at the root of conventional banking is bound to affect its efficiency also as money capital would tend to be allocated on the basis of credit-worthiness of the borrowers rather than expected productivity of the projects being financed. They have also demonstrated how interest contributes to the instability of the capitalist system. All this refers to loans to business enterprises. When it comes to consumption loans the unfairness of interest and its negative impact on society become more obvious. Whether for business or for consumption, interest on loans violates the cooperative nature of man's life requiring fairness and care for others.

4. Islamic Insurance

The story of Islamic insurance is no different. One issue was to avoid interest in the investment of the contributions / savings / premia deposited by those taking insurance. That was easily done as the establishment of Islamic banks preceded the establishment of Islamic insurance companies. As a matter of fact the first Islamic insurance company was established towards the end of 1978 at the behest of the Faisal Islamic Bank of Sudan. Now Islamic insurance companies have a whole range of Islamic financial instruments in which to invest.

The other ethical imperative was to prevent insurance from degenerating into gambling. Gambling inheres into games of chance played for a gain. The activity is created or voluntarily entered into. It is not like the chances one has to take in the ordinary business of life, i.e. the risks and uncertainties attending upon sale, purchase, investment and production, even upon travel, choosing a career or choosing your doctor. The unambiguous examples of gambling are bets in horse race, in games of cards or on spinning a roulette wheel. The financial risk involved in gambling could have been avoided if the gambler wanted to do so, by not playing the game. Not so in the case of risks in productive enterprise, investment or travelling, for to avoid financial risks in these cases one has to give up not a game but the 'ordinary business of life'.

Like interest, gambling also violates the spirit of cooperation and fairness on which civilization is based. The appropriation of existing wealth already owned by some one by mere chance is unethical. Wealth is either appropriated directly from the (yet un- owned) pool of nature, or transferred to the new owner by the old owner as a gift, against a price or by inheritance. As the gains of the gambler do not belong to the first category we have to examine its legitimacy as a transfer from the old owner. The unethical nature of this transfer reveals itself if we look at the way the old owner must have come upon it. It is largely a product of work. As explained elsewhere ownership rights on the bases of work, inheritance or gift are ethically justifiable(1).

They have a rationale, serve a social purpose and do not violate fairness or the spirit of cooperation. Allowing wealth to be transferred by pure chance would make a mockery of that rationale and the social function of ownership. It would be unfair to transfer wealth acquired on the above mentioned grounds to one who does not qualify on any one of those grounds.

Shah Wali Allah of Delhi (1703 - 1762) saw the above clearly. As Baljon noted: "The requirement of mutual aid is, in the opinion of Shah Wali Allah, the main ground for the prohibition of maysir (gambling) and riba (interest)"(2)

One need read the whole passage(3) to appreciate Wali Allah's conclusion that "Both ways of gain (i.e. maysir and riba) are tantamount to inebriation, as they are in flagrant contradiction with the principles God has laid down for earning a livelihood"(4).

5. The Core Idea behind Insurance

Modern insurance (Takaful) is based on the idea that what is uncertain with respect to an individual may cease to be uncertain with respect to a very large number of similar individuals. 'Insurance by combining the risks of many people enables each individual to enjoy the advantage provided by the Law of Large Numbers.(5)' Of course the numbers are not usually 'large enough(6)' so that actual values deviate from the expected values. The theory of risk seeks to analyse these deviations. Theories seldom reach perfection, yet practice fumbles on as life in the modern metropolis is hardly possible without insurance, especially in societies with shrinking nuclear families and neighbourhoods of diverse ethnic groups.

Insurance, however, is only one form of handling risk by pooling or unbundling and/or shifting it to those who are willing to take it in expectation of a gain. One other form is the market for common stock. As explained by Kenneth Arrow, 'By this means, the owner of a business could divest himself of some of the risks, permitting others to share in the benefits and the losses. Since each individual could now own a diversified portfolio of common stocks, each with a different set of risks attached, he could derive the benefits of a reduced aggregate risk through pooling: thus, the stock market permits a reduction in the social amount of risk bearing(7)." Arrow has also pointed out that 'insurance is a very subtle kind of contract; it is an exchange of money now for money payable contingent on the occurrence of certain events'(8).

It is this subtlety that has been causing problems for contemporary Islamic jurisprudence which failed to take a macro view of the matter. In order to avoid endorsing 'contingent' payments which obviously involve gharar, under pressure from the necessity of insurance, some have tried to model it on altruistic giving (tabarru`) or charity. But the notion of charity can hardly survive the explicit reciprocity involved in takaful. The gharar / uncertainty involved in the contract between one individual and the insurance company, because of the contingent nature of the payment, tends to disappear when large numbers are involved. What is still contingent for the individual becomes routine for the group as a whole as well as for the company(9).

6. Commercial Vs. Cooperative Insurance

Since the core idea on which mutual insurance or takaful is based is the same as behind all insurance, the distinction between mutual and commercial forms of insurance is a matter of organisation, not a matter of substance. When the give and take involve large number of people some coordination would be necessary. Such coordination has to be paid for. The manager may receive his salary from a mutual or a commercial, the activity remains the same. The choice between the two forms of organisation should be guided by considerations such as

efficiency, transparency etc, in short, on maslaha, good of the people. The form of the organisation does not affect the legitimacy of the activity itself. It is not good reasoning to characterise mutual insurance as cooperation and commercial insurance as illegitimate profiteering.

As Ibn Khaldun remarked(10), trade itself is a form of cooperation: "Man cannot survive as an individual in isolation, by his very nature he needs cooperation to get what he requires. This cooperation inevitably involves, first quid pro quo (mu`awada) then sharing (musharaka) and other forms". In fact for - profit activities often prove to be better coordinated than those done in charity - the lesson so succinctly taught by Adam Smith(11). That these same require regulation and overseeing by Social Authority is not to be denied.

Having said that, I have no intention to wish away the problems surrounding insurance. Regulators worked hard to purge insurance from elements of gambling in its early days. But the task is hardly complete as newer more subtle opportunities of speculation present themselves. Nor has the battle against fraud and deception ended. We have only to remember the breaking story of the Lloyd's of London to convince ourselves to the contrary(12). Then there is the perennial issue of moral hazard; of insurance changing the behaviour of the insured in an undesirable way. There is no doubt a 'dark side'(13) to insurance. Neither the regulators nor the preachers can leave things as they are. Public intervention would always be called for to ensure fairness, eliminate fraud and protect the consumer. Insurance is too important for modern living to be prohibited as a preventive measure (saddan liz zariah) No doubt it is vulnerable to fraud and deception, even gambling, but so are the activities in the share market, currency market, even in commodity markets. Rather, the correct approach would be for the social authority as well as consumer groups to exercise vigilance and introduce needed regulations.

7. The Future

Islamic insurance is there to stay, whatever the organisational setup and whatever the juristic rationale. The question before

forums like the present one is how to take it to Muslim homes and how to do this ethically i.e. carefully protecting the interests of the people concerned. As Islamic banks and Islamic funds proliferate, it should not be difficult for Islamic insurance institutions to tag on, entering into strategic alliance with these banks and funds. Also the ulama owe it to the community to endorse Islamic insurance as vehemently as they have endorsed Islamic banking so that the community can forge ahead with a clear conscience.

Having efficient banking and insurance would still leave the larger issues of social justice and equity in need of attention. It is time we start doing that. But that beginning can be made only once we have left the exhausting as well as mind boggling job of wrangling with the formal legitimacy of insurance and some other financial contracts behind us. Shall we expect this Forum to make it possible. I pray for this. Join me, and thank you.

Notes

1 Mohammad Nejatullah Siddiqi, Islam ka Nazariyah Milkiyat (Islam's Theory of Property) Chapter II and III, Delhi, Markazi Makteba Islami, 1978. 2. Baljon, J.M.S. Religion and Thought of Shah Wali Allah Dahlawi (1703-1762) 1986, Leiden, E.J. Brill, p.192.

3. Para II on page 106 of Vol. 2 in Hujjat Allah al Baligha, Ist Cairo Edition,1355 H.

4. Baljon, op cit. P. 192.

5. Peter L. Bernstein, Against the Gods, The Remarkable story of Risk, John Wiley, 1996, p. 204.

6. Karl H. Broch, Economic of Insurance, North Holland, 1992, p. 112.

7. Kenneth J. Arrow, 'Insurance, Risk and Resource Allocation' in Foundations of Insurance Economics. Readings in Economics and Finance, edited by George Dionne and Scott E. Harrington, Kluwer Academic Publishers, Boston / Dordrecht / London, p. 221.

8. ibid, p. 120.

9. For further elaboration see the author's earlier work, Insurance in an Islamic Economy, Leicester, The Islamic Foundation, 1985. 10. Ibn Khaldun, Muqaddima, Beirut, al Maktaba al Asariyah, 1996, p. 439.

11. Adam Smith. An Enquiry into the Nature and Causes of the Wealth of Nations, Vol. 1, p. 13, 1776 republished 1910.

12. Time magazine, February 1, 2000.

13. Stephen P.D.' Arcy, 'The Dark Side of Insurance' in Insurance, Risk Management and Public Policy, edited by Sandra G. Gustavsun and Scott E. Harrington, Kluwer Academic Press, 1994.)

Islamic Finance & Beyond: Premises and Promises

of Islamic Economics

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Abstract

Some distinctive features of Islamic banking are reaffirmed: A close linkage between real economy and finance obviously holds in sharing based modes but also remains in case of fixed return Islamic modes of finance based on murabaha, etc. Islamic finance can meet all the transaction needs of the market. It does so more efficiently than conventional finance as it focuses on productivity of the project rather than creditworthiness of the borrower. By synchronizing entrepreneurs' payment obligations with revenue accrual, Islamic finance reduces instability in the financial market. Islamic banking is just whereas conventional banking is biased in favour of capital owners.

The paper notes that wild exchange rate fluctuations hurt the small and weak developing countries, hence the need for regulation according to rules framed and enforced by an international agency under the UN system. Though the prohibition of interest goes a long way in curing the ills of contemporary finance, much more is to be done to arrive at a safer, saner world insofar as money and finance is concerned.

Islamic economics sees man caring for others along with focusing on self-interest. The Islamic institution of waqf is a witness to the reality of individual behaviour with a social purpose. Morally inspired economic behaviour is well recorded today as well as widely reported from the past. Broadening the scope of such action is the need of the hour.

Mr. Chairman, Ladies and Gentlemen

I am thankful to Harvard Islamic Finance Information Program for inviting me to be with you this morning. I also appreciate the special interest Directors Thomas Mullins and S. Nazim Ali took in this regard.

Time is precious and holding the attention of this gathering of luminaries and eminent scholars for long would be difficult, so I wish to share with you some thoughts on two issues before concluding with some observations relating to Islamic Economics. Firstly, a reaffirmation of some distinctive features of Islamic banking and finance which can contribute to human felicity. And secondly, there are some worrisome aspects of modern finance, especially global finance, which call for attention.

Distinctive Features of Islamic Finance

Islamic finance ensures a closer linkage between real economy and finance, the former dictating and the latter following. The linkage is obvious in sharing based modes of investment

and financial services. When two parties, the financier and the entrepreneur, agree that an opportunity for creating additional value exists, they come together to realize the gain and share it. Since economic activities are, by definition, value creating activities, sharing as a basis of finance is inconceivable without economic activity. In the uncertain world in which these activities have to be conducted, they do sometimes fail to create additional value. There is nothing to share. Sometimes part of the existing wealth may be destroyed - the losses borne by capital, the entrepreneurial efforts gone unrewarded.

This linkage between real economic activity directed towards creation of additional wealth and financial transactions continues in case of non-sharing Islamic modes of finance such as murabaha (cost-plus), salam and istisna (prepaid orders) and ijara (leasing). These deals, which are being used by contemporary Islamic banks to secure predetermined returns on their investments are possible only when some real economic activity is involved. There have to be some goods and services to be objects of murabaha, salam, istisna and ijara. The demand and supply of these goods and services whose exchange is `financed' through the above mentioned contracts ensures that financial activity is the servant not the master of real economic activity.

Prohibition of `interest' has closed the door on exchange of more money for less money, even when a period of time intervenes. Stratagems (Hiyal) securing the same goal by bringing in a commodity in a nominal way e.g. ina, tawarruq or bai'al wafa are rejected as impermissible.

There remains the gray area of exchange between different moneys, i.e. selling one currency for another. Islamic economic research in this area has yet to catch up with the times. I do not have any opinions to pronounce save noting that it is a necessary economic activity facilitating exchange of goods and services across borders. Fear of making financial transactions "profitable" without there being any link whatsoever with exchange of real goods and services makes many Muslim scholars opt for the strictest interpretation of the relevant rules. But that carries the danger of restricting what may be really necessary. The challenge of finding the golden mean remains.

Viability of Islamic Finance

It has been demonstrated that all market activities can be financed by using the various Islamic modes, e.g., musharaka, mudaraba, murabaha, salam, istisna and ijara. No stratagems are needed. Financing consumption needs which fall outside the market (there being no prospective income to pay from out of) requires humanitarian solutions in the voluntary - cooperative sector or under a state sponsored safety net. Financing government deficits has also been shown to be quite feasible(1). How far it is desirable to run deficits, how long and what for, are however issues far beyond the scope of "finance".

We have been arguing that interest free Islamic modes of finance can replace the conventional interest based finance with certain added advantages. By synchronizing entrepreneurial payment obligations and accrual of revenues, sharing based modes of finance remove a major source of instability from freely functioning markets(2). Also by linking financial intermediaries' returns to the actual revenue of the fund users, allocation of investable funds is redirected to projects expected to produce more value than their alternatives.

Even though the predominance of non-sharing modes of finance in the current practice of Islamic banking dilutes these advantages, the Islamic system would score far better than any system that permits exchange of more money for less money. Part of the reason is the vast

opportunities of exchange that this permission opens bypassing the real economy which is focussed on exchange of goods and services with one another, money serving as a means of such exchange. Exchange of money for money degenerates into a game of chance in which people indulge to try their luck, little benefit flowing to the production of goods and services which exchange is supposed to promote. Prohibition of interest is directed at restoring money to its essential functions which certainly do not include a means for gambling.

Beyond Interest Free Economy

We now turn to the worrisome aspects of contemporary financial markets. As already noted, prohibition of interest would go a long way in improving the situation. You exchange money either for goods and services, or for money or for debt. In the Islamic framework we have no problems with the first, the second, exchange of money for money is severely constrained, and the third is almost eliminated. Islamic law allows cash for debt only at par (3), which leaves no room for a `market' in which debt could be sold for cash. It also allows exchange of debt for debt at par and with further restrictions. Again the possibility of a `market' for debt is slender. There would, of course, be a market for common stock, ijara (lease) certificate (4), and financial papers based on salam or istisna (5). But, despite their presence, the scope for speculation in an Islamic framework would be far less than witnessed at the present.

The disturbing features of contemporary finance which would remain unaffected by the prohibition of interest, restrains on the money market and the demise of the market for debt, are the following.

1. The possibility of massive capital movements into and out of a country which has destabilizing effects, especially for small economies.

2. Wide exchange rate fluctuation, to the great disadvantage of small developing countries dependent on foreign trade.

3. Social, cultural and political aspects of financial globalization and multinational corporations dominating the market. This is especially worrisome to developing countries in Africa and Asia which do not share the socio-cultural background of the regions where the MNCs are based. These countries also lack sophisticated bureaucracies, mature politicians and efficient media, which could be a guard against the possible undesirable role of MNCs.

We now take up these issues one by one. In an Islamic framework the influx of foreign capital in a country would hardly be in the form of loans as they would earn no returns. Foreign capital would come either in partnership with local capital and / or enterprise, in which case it would commit itself for medium or long run, or as price paid for common stock, in which case it would be short term. It could also come through a murabaha contract in which case the date for its possible exit with returns is determined from now. Capital invested in financial papers based on ijara, salam or istisna can, however, make an exit at will. In sum, we have two kinds of foreign capital, the long term partnership and murabaha based capital which is subject to a predetermined schedule so far as its withdrawal is concerned, and the short term capital invested in the market for common stock and other financial papers. It is the second kind which calls for attention as it can leave the country at will. The usual solution is to impose some kind of discipline so that the destabilizing effects of withdrawals of foreign capital are minimized.

Some kind of regulation is necessary. Several ideas, including those of James Tobin (6) are relevant The crucial thing, however, is to shift the focus from ad hoc individual initiatives and

policies to some kind of international understanding. There is a need for an international agency, may be part of the UN system, to be set up to engineer the needed regulation and protect the small and the weak from actions emanating from profit-driven investment decisions (and speculation) oblivious of the social political and ethical dimensions of such decisions. The conscience of the world community must take charge where the market fails to give due weight to mankind's larger interests (i.e. interest other than enrichment of capital owners).

The post World War II fixed exchange rate regime collapsed in 1971 because of the inability of the United States of America to continue honoring its commitment to a certain gold value of the dollar. A return to gold standard now seems neither feasible nor desirable. But the type of exchange rate fluctuations experienced by South East Asian economies in 1997-98 is simply a killer. It demonstrated for all, not only the dangers of freely floating exchange rates, but much more that needs correction, so succinctly indicated in the following quote from the Human Development Report 1999.

"When the market goes too far in dominating social and political outcomes, the opportunities and rewards of globalization spread unequally and inequitably - concentrating power and wealth in a select group of people, nations and corporations, marginalizing the others. When the market gets out of hand, the instabilities show up in boom and bust economies as in the financial crisis in East Asia and its worldwide repercussions, cutting global output by an estimated $ 2 trillion in 1998 - 2000. When the profit motives of market players get out of hand, they challenge peoples ethics - and sacrifice respect for justice and human rights" (7).

Some degree of exchange rate stability must be ensured if the small and the weak have to coexist on planet earth with the big and the strong - as they must. It is generally recognized that this necessitates some regulation of capital flows, but the timing and modalities of such regulation are not clear. In the absence of an agency especially designed for this purposed, most favour IMF - World Bank to take up this role.

If taken up in earnest there is a need to set limits within which only supply and demand are allowed to determine exchange rates. That in its turn calls for manipulating supply or demand, as the case may be, when needed. Only an agency with almost unlimited resources (in respective currencies) can play this role (of the `lender' of last resort). Does this mean the power to create money? May be yes.

It can now be seen how difficult it would be for the IMF - World bank under their current constitutions to take up this task. A new international understanding is necessary.

The clock of global finance can not be turned back. It need not be. It is good even for small developing countries that international financial giants - banks, mutual funds, investment companies - can find it profitable to pour in resources to exploit the vast opportunities for wealth creation these countries in Africa and Asia offer. But there are some problems, psychological, cultural and political.

Smart briefcase holding (mostly Western) representatives of the MNCs, stepping out of five star hotels remind onlookers of the colonial days. How to change that perception? Employing local boys helps. Broadening the vision of MNCs to include the social dimension in their profit making activities will help more (8).

This goes hand in hand with encouraging tourism and helping local entrepreneurs to invest in developing resorts which could attract foreign tourists and earn hard currencies. Add dish

antennas, casinos and night clubs and you have a scenario ripe for breeding misgivings leading to anger among the `natives'. They visualize a cultural onslaught and feel being targeted with hegemonistic designs of the western culture and fear losing their age old traditions.

Sovereign states are supposed to take care of themselves. Those who feel the need enter into alliances for defending their boundaries, even enlist foreign cooperation in maintaining internal security. Vulnerability to the manipulations of MNCs and financial giants is however a new kind of danger, which the traditional modes of `defense' fail to handle. Primitive administrative structures, inexperienced political elite, largely illiterate electorate - that is not a position very helpful in dealing with the new danger. Protection is needed which can come only in the form of counseling and, if needed, intervention, by some international agency, preferably working under the UN system.

I offer these observations with two ends in view.

Firstly, to reassure all concerned that the Islamic economists share the anxiety justifiably caused by the current happenings in the financial markets in particular and in the economic aspect of living in general. We are with you in search of a better way for managing our affairs.

Secondly, to shake out of their naivety those sympathizers of Islamic economics who might presume that abolition of interest takes care of all the current problems in finance and economics. There is a need to go beyond that necessary but not sufficient step in an Islamic reconstruction of man's economy.

Premises and Promises of Islamic Economics

More than any thing else, Islamic banking and finance, a sub-culture of Islamic economics, has been a quest for justice and morality into `the ordinary business of life'. Justice and Morality cannot, however, be all encapsulated into laws and regulations, especially when it comes to protecting the small and weak form the big and strong. Some behavioral changes are called for. Justice and morality have to penetrate the behaviour of all economic agents, including the decision makers at the national and international level, so that all can live together in peace and harmony. Has Islamic Economics something to offer in making this possible?

At the heart of the Islamic economic culture lies care for others as a force tempering man's innate selfishness. In sharp contrast to neoclassical economics, which dominated the scene during the twentieth century, Islamic economics brings the social dimension of living into focus, thus downsizing individualism. It also recognizes morality as a potential motor of action and overseer of self interest. The former, the social dimension, is compulsory, economic analysis can ignore it only to its peril. The latter, ethical action, is a potentiality in the realization of which civilizations have had different records. But no human society has been devoid of the moral dimension. So ignoring it can never be justified.

As regards Islamic economics the moral dimension is its raison d'etre. As the literature shows, the last fifty years have shown several attempts to analyze morally informed human behaviour in production, consumption and exchange(9).

Nothing captures the distinguishing features of Islamic economics noted above i.e. a care for others, as does the institution of waqf (charitable endowments). Unlike the Zakat levy and the prohibition of interest, there is no legal force behind waqf. No Muslim is under compulsion to

create a waqf under any circumstances whatsoever. And yet this institution emerged right during the days of the Prophet, peace be unto him, and continued to grow through out Islamic History. This giving away of private property for social purposes must have had ripple effects on the economies in which it took place, but the phenomenon has yet to attract the attention of analysts as distinguished from historians.

The other pillar of capitalism, along with private property, is free enterprise. Here social and moral dimension shows up into priorities in production and consumption and self imposed limits on profit making. The literature of hisba(10) (accountability) partly captures this. As do the economic writing of Ibn Taimiya, al Ghazali, Muhammad Ibn al Hasan al Shayhani and Abu Yusuf - in the reverse chronological order (11). Recent attempts to study Muslim economic agents under influence of Islamic norms and values have been very few(12), reflecting the continued domination of neoclassical economics. But we do have enough evidence on the reality of ethical economic behavior in the contemporary societies in East and West to justify attempts to broaden its scope and capture new areas.(13) That is the need of the hour.

Notes:

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2. Salim U. Chishti, `Relative Stability of Interest Free Economy' Journal of Research in Islamic Economcis (Jeddah), Vol. 3, No. 1, pp. 3-12 (1985) and M.A. Zarqa, `Stability in an Interest-Free Islamic Economy' in Pakistan Journal of Applied Economics (Karachi) Winter, 1983, pp. 181-88. Also Mohsin S. Khan, "Islamic Interest-Free Banking: A Theoretical Analysis", IMF Staff Papers, March 1986, Vol. 33, No. 1.

3. Muhammad Taqi Usmani, An Introduction to Islamic Finance, Karachi, Idaratul Ma'arif, 1998, pp. 216-18.

4. Ausaf Ahmad and Tariqullah Khan (editors), Islamic Financial Instruments for Public Sector Resource Mobilization, Jeddah, Islamic Development Bank, Islamic Research and Training Institute, Seminar Papers No. 39, 1997, See Chapters 5 to 10.

5. Ibid, Chapters 6 and 7.

6. James Tobin, "Financial Globalization: Can National Currencies Survive?" in Annual World Bank Conference On Development Economics, 1998, Washington DC., The World Bank, 1999, pp. 63-75.

7. The United Nation Development Program, Human Development Report 1999, Oxford University Press, New Delhi, 1999, p. 2.

8. "Multinational corporations influence the lives and welfare of billions of people, yet their accountability is limited to their share holders, with their influence on national and international policy kept behind the scenes. If they were brought into the structure of global governance their position would become more transparent and their social responsibility subject to greater public accountability". Human Development Report 1999, Oxford University Press, New Delhi, 1999, p. 12.

9. See for example. M. Fahim Khan, Essays in Islamic Economics, Leicester, The Islamic

Foundation, 1995; Ausaf Ahmad and Kazim Raza Awan (Eds.) Lectures on Islamic Economics, Jeddah, Islamic Development Bank, Islamic Research and Training Institute, 1992; Tahir, Ghazali and Agil, Readings in Micro-economics: An Islamic Perspective, Kuala Lumpur, Longman, Malaysia, 1992; and S.N.H. Naqvi, "The Dimensions of an Islamic Model" in Islamic Economic Studies (Jeddah), Vol. 4, No. 2, May 1997, pp. 1-24.

10. Nicloa Ziadeh, al Hisbah and al Muhtasib in Islam. Old texts Collected and Edited with an Introduction. Beriut, Catholic Press, 1962.

11. M.N. Siddiqi, Recent Works on the History of Economic Thought in Islam, Jeddah, International Centre for Research in Islamic Economics, 1982. Also M.N. Siddiqi and S.M. Ghazanfar, "Early Medieval Arab-Islamic Economic Thought. Abu Yusuf's Economics" in a forthcoming issue of History of Political Economy. Also S.M. Ghazanfar and A.A. Islahi, Economic Thought of al Ghazali, Jeddah, Centre for Research in Islamic Economics, 1998; and A.A. Islahi, Economic Concepts of Ibn Taimiya, Leicester, The Islamic Foundation, 1988. Footnotes cont'd on next page

12. Ahmad A. El Ashkar, On the Islamic Theory of Economic Behaviour. An Empirical Study in a Non Muslim Country, Durham, Centre for Middle Eastern and Islamic Studies, University of Durham, 1986. Also by the same author, Islamic Business Enterprise, London, Croom Helm, 1987.

13. Alan Lewis and Karl Erik Warneryd (eds.), Ethics and Economic Affairs, London & New York, Routledge, 1994; Zester M. Salmon, Helmut K. Anheir and Associates `The Emerging Sector Revisited' Johns Hopkins University Institute for Policy Studies, 1998 (Reported in the Economist, 14 November, 1998); Stefano Zamagani (ed.), The Economics of Altruism, An Elgar Reference Collection, 1995; Oded Stark, Allruism and Beyond, An Economic Analysis of Transfers and Exchange within Families and Groups, Cambridge University Press, 1995; Jane Mansbridge (ed.), Beyond Self Interest, Chicago, The University of Chicago Press, 1990. On the theoretical side, see John P. Powelson, The Moral Economy, The University of Michigan Press, 1998.

Financing Infrastructure Building: Role of Islamic Financial Institutions

Dr Muhammad Nejatullah Siddiqi

Seminar on Cooperation Between Government and the Private Sector in Financing Economic Projects

Introduction

Infrastructure refers to roads, bridges, railways, water-ways, airways, and other forms of transportation and communications as well as water supplies, electricity and telephone. It also includes financial institutions and such public services as health and education. More generally it includes all institutional prerequisites of efficient working of competitive markets(1)and expansion in production.

The building up of infrastructure requires huge amounts of capital. The benefits of these huge investments are great but many of them are indirect and all of them accrue gradually over a long period of time. In the developing countries, especially, the private sector either lacks the means to undertake these projects or it is unable to find the (low) returns and (long) time period involved suitable. So the state is called upon to undertake these projects in order to create an environment suitable for growth and development.

It is presumed that government revenue from all sources including politically sustainable levels of taxation falls short of the amounts needed for financing infrastructure. So the issue before us is how to mobilize public's savings for this purpose. In an interest free Islamic economy the question is: how can the Islamic financial institutions help in this regards.

Islamic Financial Institutions and Their Role

Islamic financial institutions are distinguished by their keeping away from lending or borrowing on interest. An Islamic bank accepts investment deposits on a profit sharing basis. It supplies some of these funds to businessmen on a profit sharing basis. But currently other modes of finance permitted by Shariah are in greater use so that these banks can earn profits for their shareholders and depositors. Islamic investment companies operate like mutual funds. They invest clients' monies in common stock or use them to earn profits through Islamic modes of finance as Islamic banks are doing.

Broadly speaking, there are two ways in which Islamic banks and other Islamic financial institutions can mobilize private savings for public sector projects related to infrastructure. The first way is based on profit sharing and can be applied to projects capable of yielding measurable monetary returns e.g. in the form of a toll tax for using a highway or motor vehicles licensing fees for using roads in general, etc. Funds mobilized in this framework can be rewarded by a percentage share of the actual returns.

Secondly, funds can be mobilized by selling at a higher than cost price services / benefits of certain infrastructures which are 'purchased' on deferred payment from the private sector which builds them for the government in expectation of good returns on their investments. Thus an airport can be built by a private company, local or foreign, and sold or rented to the government which pays the installments due out of money collected as airport tax and landing fees etc.

It may be noted that whereas the returns to the investor in the first mentioned way is variable it is predetermined in the second case. Islamic economists have devised certain financial instruments under both frameworks reported above. We proceed to describe them.

Sharing Based Instruments

These generally yield variable returns and do not guarantee the capital invested since they are based on mudaraba or shirka. They are the earliest ones to be proposed in the literature on Islamic banking(2). They are also the first one to be adopted in practice e.g. Mudarabas and PTC in Pakistan: "The banking and financial institutions in Pakistan have evolved a new corporate security to replace the interest based debentures which is named "Participation Term Certificates" or PTCs. Participation Term Certificates are transferable corporate instruments based on the principles of profit and loss sharing and are intended to replace debentures for medium and long-term local currency loans for industrial and other financing. Instead of receiving interests, as in the case of debentures, the PTC shareholders share the profit or loss of companies involved. John Harrington of Seton Hall University, New Jersey, USA has suggested that PTC may be used as a vehicle to finance the construction of public buildings to be leased to the government. Holders of PTC would profit from rentals paid by the government and also from gains if the properties were sold at higher prices. PTCs of this type would reduce the need for government debt, provide an attractive earning asset to investors, and be traded in the capital market. They would be eligible investments for banks, as are other PTCs."(3).

In Iran, Participation Bonds have been launched for the same purpose: "Tehran Municipality, Iran has recently (Approx. in September, 1994) issued a bond named "Participatory Bonds" in accordance with Islamic principles for financing the project of reconstruction of Navab Highway. The essential features of the bond are as follows:

a) Participation Bonds are issued in accordance with Islamic Principles and on the basis of investment in economic projects with positive rate of return. The return should be divided between the investors and the issuer of the bonds, who is also responsible for the completion of the project.

b) Participation Bonds can be issued, both, by the public and the private sector.

c) In each case there should be an underwriter who accepts the floatation of the bonds and purchase of the issue bonds not purchased by the general public.

d) For each case, the issuer should guarantee a minimum amount of profit obtainable from the related project. Profits over and above the guaranteed level should be distributed after the completion of the project. If the projected minimum profit is not realized, the entire responsibility of provision of funds for payment of the guaranteed return would fall on the issuer.

e) The bonds should be for the purpose of financing a specific project and cannot be used otherwise.

f) The bonds are issued together with special coupons for collection of returns. Due date of such coupons are specified at the time of the issue.

g) Such bonds are issued without name and on bearer basis.

h) The bonds are negotiable and can be transacted through Tehran Stock Exchange, Bank Mili (Central Bank of Iran) is the underwriter and, hence, the agent responsible for floating this bond"(4).

It is reported that the Central Bank of the Islamic Republic of Iran is considering "a proposal for a National Participation Paper (NPP) with return linked to an index of stock market and other measures of private sector returns"(5). The proceeds will be used for financing government operations, infrastructural projects in particular.

Sudan has introduced Central Bank Musharaka Certificate (CMC) which "refer to an equity based instrument that is issued against the government (or central bank) ownership in commercial banks"(6). It has been introduced "in order to enable the central bank to regulate domestic liquidity through open market operations, and thereby facilitate exchange market unification"(7).

Sudan is also considering the introduction of Government Mudaraba Certificate (GMC) which "refers to an instrument that enables the government to raise funds through the issuance of securities that promise the investors a negotiable return that is linked to the developments in government revenue (a share in government revenue, for example) in return for their investment in the provision of general government services"(8). These instruments differ in various respects from the simple models presented in the theoretical literature noted above. But the essence remains the same. Funds are mobilised by selling certificates whose owners can expect an annual return. Some of them are negotiable so there is, theoretically at least, a possibility of making capital gains. The returns are linked either to certain projects or to growth in a broad sector of the economy.

The fund user is the government which builds the infrastructure and the fund suppliers are the people who have savings to invest but the one who 'intermediate' are the Islamic banks and other financial institutions. So what is their role and how can they play it? Once the government issues a particular sharing certificate the Islamic bank or other Islamic financial institutions buy it out of the funds accumulated in their investment accounts or as insurance premia, as the case may be. The government's obligation to pay yearly dividends may be met through the banks to whom it may transfer their share of the declared profits. If the certificates have a maturity date the government offering to pay back the capital (with the final year's profit or minus the losses) this obligation too it met through the banks. In sum, the government transacts only with the Islamic banks and other financial institutions. Also the public transacts only with the Islamic banks and other financial institutions. The government does not deal with the public directly.

A secondary market in such certificates would develop. Those who do not wish to keep the certificate till maturity could sell, those who missed the issue when it was launched could buy. It will function like any other market, the certificate price being determined by supply and demand. It is also possible to launch profit-sharing certificates which bear no maturity date. They are perpetual(9), the government being the perpetual mudarib or partner, the holder of certificate being the financier (Rab al Mal) for the period he decides to hold it. Certificate owners could sell and buy on the market making capital gains or losses. Annual profit would be disbursed to the one holding the certificate at the date dividends are due. For convenience, the

government may deal only with institutions, banks, investment companies, brokerage houses etc. The public may realise their claims through these institutions. The proceeds of these perpetual certificates will have to be invested in such revenue yielding government activities that are perpetual in nature.

Instruments Yielding Predetermined Returns

These have been devised on the basis of Ijara(10) (leasing) Istisna(11) (Manufacturing contracts) Salam(12) (Prepaid contracts for agricultural products) or Murabaha(13) (Cost-plus or markup sales). The Islamic financial institution which markets the instrument appears in the middle of a tri-partite relationship linking the ultimate user/buyer and the producer / seller. The financial paper sold to public by the Islamic financial institution bears the promise of a pre determined return as rent or price installment. Generally speaking most of these papers are not negotiable hence do not have a secondary market. But theoreticians are suggesting ways and means of making them negotiable. This is especially applicable to rent sharing certificates: "A buyer of such a certificate is acquiring a share in the ownership of a real asset, and an equal share in the net rented income of that asset for the term of the lease (say n years). Such financial instrument, shariah wise, is fully negotiable ...... Their price would be subject to the forces of supply and demanded like any freely traded assets(14). It may also apply to some istisna based certificates: "The suitability of istisna for financial intermediation is based on the fiqh permissibility for the contractor in istisna to subcontract. .... the public authority first defines the specifications of a fixed investment project it wants to establish and the number of years itrequires to repay the price. Bids are invited .... when the facilities are built and the istisna contract consumated, the full ownership of the facilities is immediately transferred to the public authority, against the deferred sale-price that would normally cover not only the construction cost but also a profit .... The deferred price that the public authority will pay may be in the form of interest free DPCs (Deferred Price Certificates of indebtedness) whose total face-value exactly equals the total deferred price ..... DPCs represent public authority's debt. ....

Even though a debt in Shariah may not be exchanged (bought and sold) at a price different from its face value, it may be transferred (endorsed) at face value to a third party. An Islamic Bank holding such a certificate may acquire against them property or merchandise for a deferred price. Once acquired such property or merchandise may be disposed off in any manner."(15)

Some private Islamic Companies are marketing such instruments but to the best of my knowledge, with the exception of Malaysia, no country claiming to be practising Islamic banking at the national level has adopted these ways. Yet the theoretical literature presenting these instruments as possibleways of mobilising savings for financing infrastructure deserves serious attention. The main reason why these instruments need being closely examined and possibly adopted in practice is that sharing modes of mobilising private savings are not suitable for projects with no direct measurable monetary return e.g. education, health care etc.

Application

The practical steps needed to realise the potential of Islamic financial instruments for building infrastructure are, firstly, identify the projects with some details and invite the Islamic financial institutions to mobilise the required funds. The next task is to identify the instrument or instruments suitable for such mobilisation vis a vis a particular project or group of projects. Both the government and the financial institutions need work together in this crucial task. Thridly the issues may be launched in cooperation with these institutions and the public be invited to buy

them through these institutions. Lastly, development of a secondary market in these institutions will need some doing, especially in the initial stages. A market maker is needed. This role can be played by an enterprise (a partnership, a joint stock company) or even a state owned bank, as the situation may demand. In the Islamic banking experience so far, Dallah Al Barakah group's companies, at Tawfeek and al Ameen are focused on such a role.

In the context of the first step noted above, the idea of a large pool of investable funds which could cover a number of projects had gained favour over project-wise fund mobilisation. This may be more suited to a country faced with the task of building several kinds of infrastructure simultaneously e.g. telecommunication as well as highways and irrigation canals. The recent moves in Iran and Sudan, noted above, can be appreciated in this context.

The four steps: project description, instrument designing, issue launch and help developing an efficient secondary market, are, each in its own turn, important for mobilising private savings for infrastructure building through Islamic financial institutions. They are familiar tasks. Doing them in Islamic framework has already begun. This seminar of ours may boost these efforts further.

Notes:

(1) Joseph E. Stiglitz: "The Role of Government in Economic Development", in Annual World Bank Conference on Development Economics, 1996, edited by Michael Burno and Boris Pleskovik, Washington, D.C., The World Bank, p. 14.

(2) M.N. Siddiqi, Banking Without Interest, Leicester, The Islamic Foundation, 1983, 1997, pp. 133-141.

(3) Ausaf Ahmed and Tariqullah Khan (eds.), Islamic Financial Instruments for Public Sector Resource Mobilisation, Islamic Research and Training Institute, IDB, Jeddah, 1997, p. 100. For other relevant details see pp. 101-102. On Mudarabas see pp. 97-99

(4) Ausaf Ahmed and Tariqullah Khan (eds.), Islamic Financial Instruments for Public Sector Resource Mobilisation, Islamic Research and Training Institute, IDB, Jeddah, 1997, pp. 107-108.

(5) V. Sundrarajan, David Marston and Ghiath Shabshigh, 'Monetary Operations and Government Debt Management Under Islamic Banking', Washington D.C., IMF Working Paper, 1998 (WP/98/144), p. 10.

(6) Ibid, page 11.

(7) Ibid, page 11.

(8) V. Sundrarajan, David Marston and Ghiath Shabshigh, 'Monetary' Operations and Government Debt Management Under Islamic Banking, Washington D.C., IMF Working Paper, 1998 (WP/98/144), p. 13.

(9) See for example, Sami Ibrahim al Suwailim's coments in Ausaf Ahmed and Tariqullah Khan, op. cit, especially, p. 247.

(10) "Lexically it means to give something on rent". In the Islamic jurisprudence the term ijarah is used for two different situations. In the first place it means 'to employ the service of a person

on wages ...... The second type of Ijarah relates to the usufructs of assets and properties, and not to the services of human beings. Ijarah in this sence means 'to transfer the usufruct of a particular property to another person in exchange for a rent claimed on him.' In this case the term Ijarah is analogous to the English term 'leasing'."

Muhammad Taqi Usmani, An Introduction to Islamic Finance, Karachi, Idaratul Ma'arif, 1998, pp. 157-158.

(11) 'It means to order a manufacturer to manufacture a specific commodity for the purchaser. If the manufacturer undertakes to manufacture the good for him with material from the manufacturer, the transaction of istisna comes into existence."

Ibid, p. 195.

(12) 'Salam is a sale whereby the seller undertakes to supply some specific goods to the buyer at a future date in exchange of an advanced price fully paid at spot'.

Muhammad Taqi Usmani, An Introduction to Islamic Finance, Karachi, Idaratul Ma'arif, 1998, p. 186.

(13) "If a seller agrees with his purchaser to provide him with a specific commodity on a certain price added to his cost, it is called Murabaha transaction". Ibid, p. 95.

(14) Muhammad Anas Zarqa "Rent Sharing Certificates ....." in Ausaf Ahmad and Tariqullah Khan, op. cit, page 318. Also see pp. 317-324.

(15) Muhammad Anas Zarqa "Istisna Financing of Infrastructure Projects"in Ausaf Ahmad and Tariqullah Khan, op. cit, pp. 231-241. Also in the same volume, see the paper by Mohamed Ali Elgari, 'Islamic Investment Funds as Means of Resource Mobilization' especially pp. 277-78.

NATURE AND METHODOLOGY OF ISLAMIC POLITICAL ECONOMY

IN A GLOBALIZED WORLD ENVIRONMENT

Mohammad Nejatullah Siddiqi

INTERNATIONAL WORKSHOP ON ISLAMIC POLITICAL ECONOMY IN CAPITALIST GLOBALIZATION:

AN AGENDA FOR CHANGE

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Reading 33 papers in the context of methodology of Islamic Economics can be an inspiring experience. It can also be bewildering. This is especially so if the reader is not sure whether he is looking for a methodology in there or aspires to evaluate the material on the basis of one in his own mind.

Being in the unenviable position of one who came to these learned contributions without one in his own mind, at least not in the conscious part of it, and then found a variety of approaches and diversity of `visions' in those papers, I have little choice. I will present what I found in a manner which might lead me to a synoptic, acceptable approach based on a vision that combines the desirable with the possible.

Before I proceed to do so I note that *Shariah* scholars, especially *Faqeehs*, are not among the authors I read. This undoubtedly makes may task much easier! But it also leaves it very incomplete. We have to break the language barrier to make our "Agenda for Change" more credible.

In what follows I juxtapose four or five polar attitudes, occasionally, but not always, pointing fingures to help in comprehension rather than offer critique or applause. (All pages refer to respective mimeographs listed in the appendix alphabetically arranged author-wise). Comments on these polar tendencies are followed by some `guidelines' for whose wisdom or folly I bear sole responsibility without any prejudice to 33 wise men and one wise woman coauthor with a man (yeilding a participation rate of 1.5% for the better half) whom I had the privilege of reading.

The two most prominent tensions running through some of these contributions are between:

(i) Public management, largely through state intervention *Versus* privatisation and reliance on individual initiative and enterprise with reduced regulation.

(ii) Meeting modern challenges through fresh *ijtihad* largely based on first principles of Islam derived from Qur'an and Sunnah *Versus* searching for solutions in *fiqh* and seeking guidance and *fatwa* from ulema.

The two are not entirely unrelated as those who feel bound to *fiqh* and ulema generally fall back on the state to "implement the *Shariah*" having little confidence in individuals themselves. The champion of innovation in a global economy can hardly do without the leverage afforded by *maqasid al Shariah*.

While we wait like M.A. Choudhury himself, for the emergence of his grand system based on `Quranic Socio-Scientific epistemology' (pages 8 - 17, 25 and 31) (an stance related to ii: above) we can hardly from his prognosis that belongs to i: under the inexorable impact of this change in a globalizing, privatizing and power-sharing world of the future the present autocratic world system of the Muslim countries will lose out" (p. 43). We find Sayyid Tahir (Industrial Relations, pp. 17 – 24), seeking answers to questions raised by pensions and provident funds in a *fiqh* developed when life long hiring of free people was unknown, where as Asghar Ali Engineer puts aside *fiqh* as history in the opening paragraph of his paper (p. 24). Also contrast Sayyid Tahir (Riba free Alternatives, p. 18) and Iraj Toutounchian (p. 24) on central bank working under Treasury to Heyder Pourian (p. 13) on independence of central bank. Tahir and Toutounchian are relying o! n deduction whereas Pourian has learnt from experience - which brings us to our next point.

(iii) Idealism and realism. Those with eyes fixed on the golden age of Islamic history (remember Syedna Omer Farooq) continue Calling upon good governments to realise the Islamic objectives (Sayyed Tahir, M.L.A Bashar). They also talk about economic integration of the Ummah [M.A. Miyan: p. 10 and A.H.M. Sadeq, p. 28] and possible replication of Khilafah - one ruler for all muslims [A.H.M. Sadeq, p. 30].

Those with ears on the ground and eyes open to what they actually see are the ones calling for less government and privatisation. (S.V. Reza; Monzer Kahf p. 30; M.A. Zakaullah p. 38). So, this issue too links up with the above two. But it deserves separate recognition for more reasons than already noted. Some of our contributors are so strongly idealistic that they tend to see into reality here and now reflections of or pointers to the ideal which to the earthly eyes of this writer are just not there. Iraj Toutounchian sees in Iran "Islamic values prevalent in almost all country side" (p. 17). For him banks do not create money (p. 24) and (despite the obvious point that in order to serve as medium of exchange money has to be a store of value between sale - purchase) `sees` money as void of store of value function' (p. 17).

The tendency to see what we wish to see seems to be wide spread. Mushtaqur Rahman's paper on Muslim situation in the United States falls in the same category.

Those keen to improve the lot of the poor, rid the streets of crime and obscenity and usher in a good and just society have always faced the vexed question: how far can you rely on morality and civic sense of the people? and the complementary one, how far authority and coercion ensure what morality and civility failed to deliver. There are no clear answers. There is not much to choose either. Throughout history those who, no doubt in their keenness to attain perfection, left the golden mean of a judicious (pragmatic?) blending of the two (no eternal recipes) for utopian extremes floundered, doing great damage to society.

That some of our contributors got caught into this wedge was not surprising. But for some of us

to try to build Islamic political economy (hence Islamic economic agenda) on the assumption of ideal Islamic behaviour on part of every economic agent is too much.

Is there a psychological relationship between this tendency and that noted above: the tendency to see much more good in reality than is actually there. What is the impact on policy-decisions when the two combine? Does this yield some testable hypotheses for the study of some contemporary societies which are Islamising their economies?

Lastly, there is the bugbear of the West. A west supposedly out to keep Muslim countries under developed (Savas Safak Berkctin, pp. 30-33) and prevent Islam from coming to power. For some, if not most of our writers facing this threat seems to be the overriding priority. From a call to reject American led West's new world order (Mohammad Anwar; Savas Safak Berkctin) to a rejection of western economics (Amino S. Mikilo, pp. 11-12; But there are saner advices like those of Syed Farid Alatas, especially p. 11) this attitude is pervasive.

Indirectly reinforced (though he never intended to do so) by the asides of eminent scholars like Professor Ali Mazrui, the near universality of a "hostile west" perception calls for some closer analysis. What is West? Starting from individuals, do they care about maintaining, if possible raising, their standards of living or they would rather devote their energies to keeping us down. What about the dawning awareness that increasing prosperity of the East expands the market for the west (and vice versa). And why should the ordinary western individual care about denying power to Islam in its own lands.? Some of us may still see in him the crusader (who forsake his economics to promote his religion). This may no longer be true. Then there is the media image of Islam in power and what it might mean for the western individuals (remember the hostages in Tehran!). But who said it can never change.

Let us now go beyond the individual in the west. What do we see: governments that come and go, alliances that change. Nothing permanent. All acquired traits, no innate character. I may be wrong. But hostile west syndrome does not seem to be doing any good to its adherents (victims?). It has not resultin any coheren"agenda", neither for policy nor for research. It can not. Negative perceptions do not take you far on the road of positive achievements.

While I am for heeding the warning of Refidah Abdul Kader and Mohamed Ariff (p. 13) and surely one has to take notice of Ali Mazrui's list of west's "seven biases" (p. 26), I wish to endorse Paul Y. Hammond (p.15) that something can be done. Also there are new po>

Transfer interrupted!

ni (p. 6).

Besides Rafidah and Mohamed Ariff several other writers have focussed on Malaysia (M.A. Zakaullah; Ataul Haq Pramanik, M.A. Choudhury and Syed Farid Alatas). These deserve close attention. Is Choudhury right in posing the enigma facing the Ummah (p. 21)? Is his lament about lack of ethically oriented policy addressed primarily to individuals or to government? How is a government supposed to ensure a balanced development between ethical values and economic growth' (p. 21) in an open economy? Ataul Haq Pramanic's study is helpful. But then he throws the whole thing into confusion by asserting that al Arqam "quite successfully demonstrated the success of a development strategy based on self reliance." (p. 17) What strategy? Whose self reliance?

Can these tensions be eased and the gaps bridged? Can our intellectuals as sampled in the 34

contributors to this International Workshop on Islamic Political Economy in Capitalist Globalization: An Agenda for change, close their ranks and end up with a consensus methodology?

On this score I am optimistic. Even though I have dared to launch "guidelines" as required by the organisers of the Workshop, I do not expect every one to accept each one of them. But I daresay they reflect the way the winds are blowing. The more you are opposed to them the more energy you will have to spend merely to hold your ground.

I do not think Islam's cause will be promoted by confronting the west, opposing globalisation, preventing consumerism by coercion, rejecting modern economics, building pure models on the assumption of ideal Islamic behaviour and exemplary leaders / rulers. Islam's destiny will be made through the currently unfolding reality by those who choose to be in the thick of it while conscious of their faith and aware of their objectives. These should have the capability to win friends and influence people from amongst the masses of humanity currently perceived to be indifferent or even hostile.

Guidelines for required short and long term policy

measures for transformation of the present structures

in various countries to conform to the norms of Islamic structures

o Observe reality as it is, do not let ideals lead you into optical illusion of seeing what is not there. Also, do not let yesterday's observation become the last word regarding tomorrow's possibilities.

o Make reality your starting point in your march towards ideal, do not make on it demands it can hardly fulfil here and now [e.g. change leaders (M. Anwar), all muslim countries cooperate (M.A. Miyan)]. Also Mapping out the entire landscape is not necessary for the journey. You learn by doing. The important thing is to be clear about what you want to do.

o Do not expect from moral orientation more than it has normally delivered in the past ------, go to history. Lessons of history are not only in success stories, the golden interludes. Failures teach you how to avoid them.

o Focus on the individual: motivate him spritually, enable him skillwise, enrich him resource-wise, empower him by providing opportunity. In the new global economy such individuals create their own jobs and improve their environment. They make whatever they carry - culture religion, dress, food habits tolerable, some times even loveable, to others.

o Statism has failed. Accept this. Excepting the bare minimum of power ordained by Qur'an and Sunnah, reduce government and leave it to individuals through *Shura* - democratic process to assign to it what they think fit, when they choose, where they like. Also it is not wise to make a change of government in Muslim countries the precondition to an "agenda for change". If you can not change it, ignore it.

o Global confrontation is counter productive. Do not initiate it. Even if the "West" imposes, avoid it. In the global economy of the future there is no East no West. It is trade, interdependence, and the mixed metorpolis ----- a metropolis teeming with people from four corners of the world, professing all kinds of faith, treasuring diverse heritages, etc.

o The craving for a de novo discipline of Islamic economics is ill conceived. No such thing is possible. The key to Islamic economics lies in positioning the Islamic vision in place of the Anglo Saxon economic vision. But the Islamic economic vision has to be universal and contemporary not chauvinistic and medieval. As we move in that direction we may be pleased to discover we have good company from amongst modern economists in the West and East. The search for a more humane political economy is now universal. The challenge is, who leads the way.

o And, lastly, be practical. Apply what you have, now. Do not wait for refinement and perfection. Apply where you can, do not wait for power.

APPENDIX

List of papers studied by this writer arranged

alphabetically according to first name of the author

1.	Abdel Hameed M. Basheer	Measuring the Performance of Islamic Banks: The Case of Sudan.
2.	Abdul Raquib	Grameen Bank - A Unique Model for Poverty Alleviation of Muslims Nations
3.	Abul Hasan M. Sadeq	The Political Economy of Cooperation Among Muslim Countries: Political Efforts and Future Directions.
4.	Ali A. Mazrui	Islam and Islamophobia: Conflicting Images in a Eurocentric World.
5.	Amino S. Mikailu	Direct Foreign Investment and Islamic Political Economy: Analysis and Implications of the Performance of Multinational Corporations in Nigeria.
6.	Asghar Ali Engineer	Political Economy of Islamic State and its Relevance.
7.	Ataul Haq Pramanik	Development Strategies and Achievements with Focus on the Sustainability Within The Framework of Islamic Movement and Political Economy of Malaysia.
8.	Heydar Pourian	Islamic Banking and Economic Development in the Islamic Republic of Iran.
9.	Iraj Toutounchian	Resource Mobilization for Partial Government Expenditures Through Islamic Modes of Contract. The Case of Iran.
10.	Jomo K. Sundram	Riba, Interest, Usury or Surplus: Alternative Meanings and there Implications.
11.	J.R. Presley	Attitudes to Islamic Finance: A Survey of Some Empirical Evidence.

12	M. Alimullah Miyan	Industrialisation in Muslim World: Experience of Bangladesh.
13.	M.L.A. Bashar	Islamic State, Industrial Priorities and Surplus Management.
14.	Masudul Alam Choudhury	Theory and Practice of Islamic Political Economy.
15.	Monzer Kahf	The Economic Program of a few Islamic Parties in the Arab Countries.
16.	Mohammad Anwar	Underdevelopment Syndrome in Muslim Countries.
17.	Muhammad Arif	Development of Capital Markets in Muslim Countries and Their Impact on and Linkages with World Capital Markets.
18.	Muhammad Arif Zakaullah	The Role of Conflict Resolution Mechanism in Economic Development: Some Lessons from the Malaysian Miracle' and Pakistan's Perils.
19.	Mushtaqur Rahman	Islamic Movement and Social Economic Development in the United States.
20.	Paul Y. Hammond	Islamic Movements in Western Europe and America: Looking for Effects on Foreign Relations.
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Muslim Minorities in the Twenty First Century:

A Case Study of the Indian Muslims

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This paper focuses on the Muslim minorities, some 400 million people, little less than one third of whom live in India. But before we turn to Muslim minorities, a few words about the world in general. It is going to be very different from what it has been in the twentieth century. In the first half of that century we had two world wars taking the lives of scores of millions of people. The second half of the twentieth century was dominated by the cold war creating a bipolar world and diverting huge resources towards the military establishments.

We hope there will be no more world wars. The impossibility of making permanent gains through war will make it possible for countries to reduce the waste of their precious resources on armament and weapons development, especially on nuclear, chemical and biological weapons. This will be especially significant for the poor countries of Africa and Asia, including India, which could then devote the resources to poverty alleviation.

Despite regional tensions the world in the coming decades may be safer and quitter than it has been till recently, affording increased scope for cultural and spiritual progress.

Another much heralded change is towards a globalized world community in which the power hitherto weilded by national governments will significantly decline. Some of this power will pass on to supra national agencies like the UN and its subsidiaries. Some will go to subnational ethnic, linguistic and religious groups as the weakening of the national bond is compensated by the strengthening of more intimately felt local affiliations. These changes would provide new opportunities to minorities the world over. But the Muslim minorities may be doubly benefited; locally in their deal with the national authorities, and because of the greater legitimacy accorded to cross border transactions by globilization.

The dawn of the new century would find a world no longer torn between two super powers. Instead of a bipolar word it would increasingly become a world without poles. There will be no super power; only half a dozen or more major players on the world scene e.g. The United States, The European Union, Japan, China, Russia and, may be, India.

The Muslim Minorities

Most of the Muslim minorities, about 90 percent of them, live in Asia and Africa. Even though the Muslim minorities in Europe and North America are increasingly becoming more important for the destiny of Islam, we do not propose to deal with them in this paper. Their environment is

so different that they are better discussed separately. For the same reason we leave out the Muslims livings in Australia and South America. For the purposes of this paper Muslim minorities refer to Muslims living in Asia and Africa as minorities.

Asia is changing fast and Africa may not be far behind. Two outstanding features of these changes are economic betterment and increasing self reliance in the management of social, economic and political affairs. The days of proxy rule seem to be over with the fading away of leaders born and trained in colonial times. All this augers well for the Muslim minorities in Asia and Africa as their fate will be increasingly determined by what they themselves do and on what they are able to contribute to their environment rather than depending on some conspiracy hatched in some western capital.

The Issues

We deal with three issues relevant for all Muslim minorities despite the diversity in their conditions. These issues are poverty, threat from majority chauvinism and their role amongst their people, the larger society to which they belong. After a few words in justification of selecting these issues we make some general observations applicable to particular groups of Muslim minorities before taking up the case of Indian Muslims.

There is not a single Muslim minority which is richer than the majority among whom it lives. On the contrary, it has been claimed that "in most of the countries where Muslims live in substantial numbers they are generally poorer than the non-Muslims", and that "the African, South Asian, and East Asian countries with large Muslim minorities tend to be poorer than the mostly Middle Eastern countries with Muslim majorities." (Kuran, 1997, p. 3). Poverty, therefore, is definitely one of the issues for Muslims in minority, we think the most important one just now.

Not every where the Muslims in minority are afraid of the majority, perceiving a threat to their identity. The Muslims in South Africa are such an exception (Simone, pp. 205-44). But those in India and China are definitely worried, perceiving a threat to their identity, as are those in many more countries. What can be done about it? That is the second item on our agenda.

The role a Muslim minority should aspire to play in its own country is dealt with in brief, but this in no way diminishes the importance of this issue. Questions we shall address include: What prevents them from playing the desired role at the present? How far Muslims themselves are responsible for their current state of insignificance. (once again, Muslims of South Africa are a notable exception). This item finds a place on our agenda for normative reasons. It is difficult to envision a group of Muslims living in forgetfulness of their duty towards their neighbors. Something must be remiss with a Muslim minority lost in isolation unmindful of what is going on around it. The Quran envisages Muslims as people with a mission

"And thus we willed you to be a community of the middle way, so that (with your lives) you might bear witness to the truth before all mankind and that the Apostle might bear witness to it before you. (2:143)

"You are the best Community that has ever been brought forth for (the good of) mankind. You enjoin the doing of what is right and forbid the doing of what is wrong, and you believe in God . . (3:110)

However, this mission can not be contemporaneously translated in identical terms for Muslims

in minority and Muslims in majority situations. Implementation of Sharia at home and forging Islamic ties abroad with a view to defending Islam and promoting it in the word at large, both constitute the dominant definition of the Muslim mission (and the cherished objective of the Islamic Movements in this century). But they do not apply to Muslims in minority environments. Such objectives require control of the state and this a minority does not enjoy. Yet there are alternative formulations to the Islamic mission conceptually prior to the one noted above. Strengthening Muslims' commitment to the moral and spiritual values of Islam so that they govern all their social relationships, including those with their non-Muslim compatriots, has top priority in this formulation. Next comes endearment to non-Muslims through caring about them and sharing their concerns. T! his should include morality and spirituality as well as proverty and deprivation. Muslims in minority situations should outperform those in majority in their ability to bond with fellow human beings, and this on the sole basis of being created by the same God, sharing His bounties and destined to return to Him in the end.

The Condition of Muslim Minorities

Muslim minorities in Asia are very diverse. Some of the Asian countries have very small Muslim minorities e.g. less than 2 percent of the total population (1). They share the poverty or richness of their country and, generally speaking, do not perceive any great threat from their majority. Their boamong themselves may not be strong enough to provide the basis of a role vis a vis their compatriots. But the situation is entirely different in case of countries with sipercentage of Muslim peoples (2). The perceived threat from the majority in these cases appears to be a direct function of poverty: the poorer the country the more its Muslim population feels repressed. The community of Islam is however self-conscious and shows the influence of Islamic movement ! elsewhere in various degrees. China is a special case. Even though Muslims constitute only 2 percent of the total population, that translates into more than 20 million people! Their concentration in Sinkiang, the fact that most of them are much poorer than the other Chinese and a strong perception of majority chauvinism makes it a difficult case. What we observe in case of Indian Muslims, and what we recommend them to do, may not be easily applicable to Chinese Muslims, but the direction of what needs being done should not be very different. The need for supplementing the recommendations made in this paper by other ones based on a study focused on the particular case of Chinese Muslims would, however, remain.

Africa has several countries with large Muslim minorities (3), along with a host of others where Muslim presence is insignificantly low. Every where tribal loyalties overwhelm other affiliations. Poverty, some times extreme poverty, and poor law and order makes the situation worse. Unlike the Asian countries, it would be too risky to generalise on the basis of our case study of the Indian Muslim. Africa needs special attention which is not attempted in this paper. But the primacy of the three issues noted above and the general direction of the programme of action that emerges from the Indian case, should hold. In the world of tomorrow nothing moves without education and economic strength.

Anticipating some of our conclusions from the study of the Indian Muslim situation, economic betterment and raising educational levels (begining with a literacy drive) seems to be a necessary condition for any role to be played by a Muslim minority vis a vis its country men. This applies to Africa as it applies to Asia. In fact it has become a precondition for survival. To make any further achievements in the increasingly competitive world of the future we need much more than that. The twenty first century will be more competitive not only in commerce and industry but also in the realm of ideas and culture. Being distinct is not enough. The criteria will be value added, felicity, balance and harmony. Tired of poverty amongst riches, and some tired of a richness that lacks felicity, peace of mind and harmony in neighborhood, the mass of

mankind will, in the coming decades, flock to calls which promise decent living standard with peace and balance (in p! ersonality as well as environment) within a framework of cultural diversity, religious tolerance and political freedom.

The Indian Muslims: Their Poverty

Poverty amidst increasing prosperity will be the most visible problem for India in the early twenty first century. GDP rising at present at 6 percent p.a. may rise at an annual rate approaching 8 to 10 percent. Unemployment, with no reliable current figures to quote, may remain around ten percent, but disparities in the distribution of income and wealth will increase with no adequate safety net for the poor in place. Life for the poor is always miserable, but it will be that much more miserable with the rest of the population becoming more prosperous and more comfortable than had earlier been the case.

Approximately one fifth (4) of Indians are extremely poor, and about half of them are Muslims. That we think is the first point to note. What does poverty mean in modern times? We beseech you to pay some attention to this because most people forget that poverty today is much worse than it was in pre industrial agrarian society. A few centuries ago poverty did not mean that you did not have clean water to drink. Almost every body, rich as well as poor, got his or her drinking water from the same rivers or wells. Today it is different as you know. With all the rivers and wells polluted and in any case inaccessable to modern urban poor, this one feature of modern poverty means a life-long struggle against diarrhea, dysentery and other diseases for those condemned to be very poor. Poverty always brings hunger and malnutrition. The body weakens, its capacity to work decreases, product! ivity declines. The longer a person remains poor the less the chances of his finding gainful employment or earning normal wages. Children raised in a poor family share the same fate.

"When basic needs are not met our moral powers remain only potential, they are not attained". (Dasgupta, 1993, p. 44) The very poor are free only in name. They can hardly be expected to stand up to tyrannical rule or to contribute meaningfully to civil society. No wonder children born to perpetual poverty soon develop a grudge towards society, the first step down the road to criminality.

Poverty today may often mean illiteracy. Again, illiteracy in twenty first century means so many disadvantages which did not attend upon illiteracy a couple of centuries ago. There have been near illiterates who have ruled vast countries, led armies, launched useful movements. But it will be very difficult for an illiterate to find his way through the new streets of the fast developing global village. Modern life is a life based on information and communication. Most of the information and communication is still in a form to be seen and read. Even the one to be heard and spoken would not be fully intelligible to the illiterate. Also much of what one can usefully listen to may not be in an Indian language. To know the latest, one has to know a foreign language, preferably English. Slightly over fifty percent of adult Indians are illiterate (Human Development Report 1995, p. 157). No separate count of Muslim illiteracy is available. But it will be reasonable t! o assume that it is higher, maybe around sixty percent. This is the average assumed for the adult Muslim population, men as well as women. What about female literacy so crucial for the destiny of our next generation? Again no reliable count is available, but the figure is likely to be quite depressing (Ahmed, 1993-96; Khan, 1994).

Society in the twenty first century is going to be more competitive. The role of the state in taking care of its people will decrease and those who need care will have to do more and more for themselves, both individually and collectively. For countries like India which have a variety of ethnic, linguistic and religious groups this will mean that every group will have to mobilise its

own resources to preserve its identity and promote its culture, etc. This will need resources, resources which the state no longer has to dole out. So only those with enough to spare will have the ability to establish and run educational institutions of their choice, etc. People in a group may have all the resources but may not have commitment to their identity and culture, no vision of what they would like to become and how. Such a group will surely disintegrate. That is to say it will not survive as a community. What about a community which has commitment and vision but no res! ources? How can it protect its interests without educational institutions, political orgainizations, social clubs and other paraphernalia of modern community life? This has to be done at every level, from the village level councils, to the city with its corporation, the state with its legislative assembly and so to the national level with its parliament. All this requires resources which come from individual wealth owners and income earners. The Muslim community needs individuals with money to spare so that the community can do all that is needed to preserve its identity, promote its culture and safeguard its interests.

Mobilizing the necessary resources in money and manpower to face the challenges of a largely liberal privatised and globalised Indian economy and society in the twenty first century will test the ingenuity of Indian Muslim intellectuals in the coming days. The important thing is to realise that the only way to success is through competition. The more productive you are the mcompetitive advantage you have. Productivity in our post-capitalist, post- modern society depends on, above all things, knowledge. It is no longer ownership of land or capital which can raise productivity. Increasingly it is knowledge and the skill of applying it which is the source of productivity and wealth creation (Drucker, 1993, p. 167 see also Chapters one and ten). The lesson is clear. The community must attend to the twin ills of poverty and illiteracy in order to be strong enough to face the forth-coming challenges. The question is: How do we do that? Before we can attempt an ans! wer, we have to note some other dimensions of our situation.

Hindutva

As the twentieth century comes to an end the greatest threat to Muslim identity and culture in India comes from the recent rise of Hindutva symbolized by the Bhartiya Janata Party's (BJP) brief stint with power in New Delhi (5). Hindutva does not recognize cultural diversity. For it there is only one identity in Hindustan, the Hindu. Those living in India must cherish this identity and subsume other affiliations and aspirations underneath it. This stance, explicitly rejected by the framers of the Constitution of India, is anathema to Muslims. But what can they do about it? That is the big question they carry over to the next century.

Can they convince the protagonists of Hindutva that it is bad for its sponsors and bad for India just as it is bad for Muslims? If this is a possible agenda, how are they going to do it?

Do they resign themselves to the inevitability of Hindutva prevailing over secularism and over left and centrist forces and adjust their own stance to Hindutva rule? If so, what does it imply?

Do they think the battle is political, Hindutva being only a handy slogan for mobilising people and making a bid for power? In that case, the challenge can be faced by forging an alliance with secular forces including the centrists as well as the leftists.

With prognosis goes a strategy. But one must take a long view. The issue is not related to a general election or two. It is India's destiny that is at stake.

As to ourself , we think Hindutva has no future, howsoever great its nuisance value. It is not unusual in human history, however, for a failed vision to consume half a century or more before

people get rid of it. Albania and Burma as countries and communism as a whole movement encompassing a third of the globe are the most recent examples. But ultimately Hindutva must fail as it has little to offer. Its social philosophy which still justifies caste, does not appeal to people whom economic forces are making equal anyway. Its narrow focus on a single geographical area is out of tune with the all encompassing globalization which, disregarding national boundaries, offers men and women a real promise of regarding the entire planet earth as their theatre of activity.

Hindutva has no future because it is in violation of one of the basic tenets of humanity in twenty first century - social equality. A philosophy of life that discriminates between men on the basis of characteristics beyond an individual's control and thus violates essential human dignity can no longer be acceptable to men and women. Hindutva is incapable of discarding the superiority of the Brahmin and all that goes with it, in a world in which knowledge alone is regarded as the acceptable basis for superiority.

The Muslim Response to Hindutva

Muslims will be ill advised to wait it out till the wave of aggressive Hindutva passes over. They must act to prevent its rise as the devastation it would otherwise effect may be too much for them to bear.

Whatever the prognosis, Muslims in India can not and should not go it alone insofar as facing and preventing Hindutva is concerned. They can adopt a three pronged approach in which two of the actions involved have to be shared with other Indians.

The first programme, to be launched by Muslims alone, especially by the religious organisations like Jamaat Islami, should focus on introducing Islam and removing the misunderstandings about Islam and Muslims. The second should be a political strategy directed at defeating the Hindutva party, the BJP, at the polls and preventing them from reaching the seats of power at local, state and national level. The third is a socioeconomic campaign serving the masses through literacy drives, cleanliness drives, economic uplift and self employment programmes, etc. This, to be effected in cooperation with other Indians especially Hindus, should be so designed as to wean away those sections of the Hindu society (e.g. the youth) who have been attracted by the social services and fitness oriented programmes of the Rashtriya suwyyam sewak sang (RSS).

Despite all such efforts if BJP was to assume power in Delhi on the basis of its own absolute majority in the Lok Sahba and stay in power for a full term, it will not be the end of the world for Muslims in India. For one thing, the above programme itself will have prepared them to face that situation far better than now. And the above is certainly not going to happen in the next few years so they have time to start working on the three pronged approach now.

Suppose it does happen. In that eventuality Muslims will have to mobilize all their strength to focus on education and cultural orientation of their youth and the very young. Since most of their activities already belong to the private sector it should not be difficult for them to shield their children from the cultural onslaught of Hindutva. As regards political confrontation I think we should avoid it even if invited to do it by our secular allies. Once a party comes to power through fair democratic elections it must be allowed to rule. Trying to pull it down by street action or horse trading is antidemocratic as well as immoral. Such an extra-democratic campaign invites its own variety of responses, plunging the society into chaos. It also provides an opportunity for foreign powers to meddle in the country's affairs.

Do we envisage the BJP ruling India for a full term, on its own or in coalition with like minded groups, during the next two or three decades? We are not sure. But it is not impossible. Prudence requires us to be prepared with a strategy and to spell out a Muslim agenda under Hindutva dominated India.

We have already opined against confrontation on the political level. We do not think we are contradicting ourselves if after having advised on a compaign for preventing BJP ascendance to power, we then preach non-confrontation if they do gain power. We think that is what the rules of the game in a democracy demand. We sincerely think that Muslims should be the foremost in playing politics by these rules. Opportunism, be it moral or political, belongs to Hypocrisy. It does not behove believers.

As we noted above, the narrow chauvinism of Hindutva runs counter to the current wave of globalization and knowledge based competition. That is the fresh air which will kill the germs which breed only in murky stagnant waters. All we have to do is accelerate that process. Let Muslims of India spearhead the process of adopting universal humanistic stances on all issues, rejecting narrow nationalistic stances. Let the choice be forced on every Indian, whether he or she would rather belong to a cosmopolitan community of nations sharing all but what is naturally tied to geography, or would they insist on an identity that is fully defined in local terms.

Playing by the rules of the game in a democracy does not occur automatically. Muslims have to plan and work for it. One needs to have a whole range of legal, political, social watchdog organisations, lobbying outfits, public relations outposts, etc. in order to survive and, to the extent possible, promote the Muslim cause. This is currently missing from the Muslim situation in India. Maybe it has to do with poverty and the fact that democracy has just dawned. But it is time we mend the fences. We would like to suggest thatsome study groups examine the history of minorities in other democracies especially in the United States. Vigilance on part of minorities is necessary to prevent encroachment on their and secure for them a fair treatment from the authorities as well as from other communities.

In the years to come more power will shift away from the state at the centre to the various social groups and minorities as well as to the supra national agencies (or international organisations). This is to the advantage of Indian Muslims, provided they are prepared to utilise the same. Being a distinct group present in every Indian state, they are in a better position than ethnic or linguistic minorities confined to only one region. The trick is not to fight with other groups in seeking government funding but to go all out to create resources for themselves on their own. Increasingly the State will have little to offer, so there will not be much to fight for. Better to ignore that source and, with spirit of entrepreneurship, exploit the vast resources - land, labour and capital, lying under your feet. Above all there is that infinite resource, knowledge, flowing all round you. Utilise all these to create additional wealth rather than wait for some to be do! led out.

But where is the spirit of entrepreneurship among Muslims in India, what does it mean and from where can it emanate?

Economic Uplift

Entrepreneurship means innovation, leadership, taking bold and courageous initiatives. It presumes hope, self confidence and trust. Pessimism, fatalism, seige mentality, a pervading sense of being persecuted, are its arch enemies. Only a small number of scattered groups among Muslims in India bear these entrepreneurial qualities which are either set or originate in

family or community traditions. Neither the madrasa nor the college and schools have anything to offer in this connection. There is a need to project the role models we have, so the younger generation of Indian Muslims emulate them. We must wean away our youth from the ghetto and the street and show them the way to gainful self employment and how to acquire skills that make them employable by others. The energies of social workers should be focused more and more on making the future generation of Muslims less dependent on publicly funded educational a! nd health facilities or on the public sector for a job. They should be able to earn enough to be able to buy the educational and health services they need. They should be equipped with the knowledge and skill which is going to have a wide market in the largely private but booming economy of India in the years to come.

Is it the old egg and chicken question? How can one earn without education and good health, and where from to pay for the health-care and education one need? Let the Muslim activists, philanthropic institutions and social service groups break the vicious circle by stepping in now. There are various ways of helping the needy without increasing his dependence or making him dole addict. Once again there is a need to learn from the successful anti poverty and self help programmes in South East Asia as well as in our own country in the south.

Will the Muslim activists in India, especially those with religious inspiration e.g. Jamaat Islami, Tableeghi Jamaat, Ahl Hadeeth and Barelvi group ever learn the primacy of economic strength for the survival and progress of Muslims and Islam in India? Will they readjust their focus from exhortations and warnings and ordainments to helping people on to their feet and putting them on the road to self respect and hope?

We do not have sure answers, but we must try. It is very difficult to imagine an uplifted Muslim community in India without change in the approach of their religious mentors. The more crucial thing is to make them realise that modern society after the industrial revolution superimposed by the communication and information revolution is so different from the one reflected in most of their intellectual heritage that they must think afresh.

Time and again we have found that the religiously oriented do not accept the priority of poverty eradication, removal of illiteracy or of any economic programme as they think that priority must attach to moral and spiritual matters. More sophisticated Islamists would include the intellectual dimension, that related to thought (fikr). But economics is about doing things more efficiently. That, they seem to imply, comes to human beings naturally, hence it should not concern them. In our view they are wrong. We also think this way of looking at our mission has no support in the Quran and Sunnah. We should be ready to do whatever is needed to lift this ummah of ours from the morass of weakness and indignity, protect it from the dangers looming on the horizon and equip it with what would enable it to compete with others and succeed in its mission. Eradication of poverty, removal of illiteracy and inculcation of entrepreneurial qualities are necessar! y to secure these results. This is not to deny the need for moral and spiritual reorientation. There is no contradiction between the two drives, the one for educational and economic uplift and the other for moral, spiritual and intellectual regeneration. Some economic means are necessary for sheer survival, for Muslims coming together, warding off aggressive designs towards them and, broadly, for adherence to Islamic teachings. Islamic scholars as well as activists should call upon Muslims to work hard for economic betterment for the sake of their religion. They should tell Muslims they have to make enough money to have something to spare for jihad in its broad sense of moblising all energies for the cause of Allah. Spirituality in Islam is not to suppress material quest but to give it the right direction. Having recognised the need for economic betterment, religious leaders and activists have to lo! ok back at their educational institutions and see what can they contribute towards this policy objective. Their sermons also need include this theme.

Economics in recent days has been overtaken by a revolution in the science of management -- the discovery that it is not only material resources, land, labour and capital that matter, but also the way you manage their use. The way people deal with people has more to do with productivity than the way they deal with things, machines and the like. These recent lessons need to be learnt by us not only in managing business but also in managing the madrasa and the waqf.

What Kind of Education?

Education now seems to be on top of the agenda of every activist and every group working for the uplift of Indian Muslims. The important question, however, is what kind of education and what are the priorities for allocating the scarce resources of the millat for education of its children.

Two facts should determine the answer of the above. Firstly, the overwhelming majority of Muslim in India are illiterate and very poor. Secondly, in future most jobs will be in the private sector where skill and potential productivity will decide who gets which job. Our educational priorities must reflect these realities. Most of our efforts and resources should be directed towards educating the poorest of the poor and the illiterate. Next comes skill generating programmes which can enable people to get a job or launch their own small business. The primary school and the vocational and technical institutes must come before universities, colleges and other costly affairs. People should be made to pay for higher education and social subsidies should be reserved for the institutions serving people without means. Recent studies have demonstrated the primacy of primary education over secondary and higher education for social and economic uplift. The "social rate ! of return" on investment in primary education is double that in higher education and one and a half times that in secondary education (Dasgupta, 1993, p. 90). The same should apply to health care insofar as it is organised by social and religious organizations.

More important than the form, however, is the content. Instead of producing authority driven kids trained to learn by the rote and regarding passing the examination or excelling at it as the highest possible achievement, our kinder-garten and primary education should encourage free enqui, explorations, experiments, and creativity.

The process should in fact begin from home. Instead of relying exclusively on do and do not and giving the impression that all knowledge is accumulated knowledge and all truth is transmitted by elders from repositories in the past, children must be oriented to seek knowledge yet to be discovered and truths yet untold. Truth and knowledge are unbounded and the potentialities of a child far exceed what an old man or woman can imagine.

Muslims have nothing to fear from free enquiry or seeking after knowledge. What is true is by definition compatible with our religion, what is false can not stand for long given free enquiry and experimentation.

Testing shariah compatibility is an aid, no doubt. But past experience shows it is not as simple a job as it appears, and many who dare do so may not be really qualified for the job. There is always the danger of a particular interpretation of sharia being treated as the sharia itself ignoring the obvious fact that particular interpretations reflect their particular time and place.

Patience, perseverance and an open mind are, in the long run, better guarantees of accumulating new shariah compatible truths and of protecting ourselves from falsehood. It is

not going to help if we reject every thing new at the very first impression of its incongruence with what we understand to be the shariah. This latter strategy, far from succeeding in protecting the faithful from falsehood, ends up missing out on new knowledge and discrediting shariah itself. This mistake must not be repeated.

Admittedly an open minded approach to knowledge and arriving at new truths would open the door for differences of opinion and diversity in policies. Eventually sounder opinions will weed out the rootless ones and efficacy will select the policy that stays. Meanwhile we shall need tolerance and respect for the dissenting ---- qualities in very short supply in the recent past.

The Quest for Balance

I do not think economic uplift, hundred percent literacy and knowledge imparting education -- targets possible to achieve in a couple of decades --are all that we need. These we need to enter the race, not to win it. The race in the twenty first century is for a balanced approach to life. The nineteenth and twentieth centuries have raised standards of living to levels that could not be imagined at the beginning of this period. But mankind, in the quest for this unprecedented material prosperity, missed out on some thing without which it feels neither content nor secure. It was not without reason that family values and morality were the most discussed subjects during the 1996 presidential election of the most prosperous nation on earth, the United States of America. Ethical issues have been at the centre of political developments, including change of governments, in many countries during the last ten years. In the field! of economics, the increasing disparity in the distribution of income and wealth within nations and between nations, which is in essence a moral issue, is attracting more and more attention.

To some extent, the same applies to concern for environment. The Green parties may not be destined to capture power in any European country but their message has reached the masses: Something is wrong with the way planet earth is being managed, and time is running out. Mankind has lost its balance, and the quest for balance between the material and spiritual-moral is going to dominate the coming century, both at the intellectual as well as at the policy level.

India will be no exception. Have we Indian Muslims something to contribute? Yes, but not before we have solved the problems discussed above. The poor and the illiterate can not teach balanced living to Indians. A prosperous, educated, well behaved Muslim Community can be a force working for sanity, stability and balanced living in the India of the future.

Globalisation and all that

In the international arena, this quest for balance may lead, instead of ‘clash of civilizations’ (6) to dialogue, compromises, and cooperation between civilisations. Trade has generally, if not always, brought diverse people into peaceful productive contact. With falling barriers to international trade and satellite channels bringing cultures and images from four corners of the globe into common man’s living rooms, there is no reason why familiarity should breed animosity. It could well be the other way round. A ‘clash’ if it does take place would more likely be provoked by the hegemonistic attitude of erstwhile super powers who fail to reconcile themselves to the new rules of the game.

Anyway, India is not visualised as the theatre for such a clash between civilizations even by those who envision it. Rather, India is seen as a likely partisan against the Judaeo-Christian

Western civilisation. Indian Muslims should have no problem in handling such a situation (which we consider to be farfetched). Nehru extolled the Indian genius for compromise and accommodation. Though not strong enough to avert the partitioning of India, it does have enough resilience to boost secular trends in the face of the rising tide of Hindutva. The same resilience is likely to serve India as a force against any potential clash of civilisations. Should this role be thrust upon it, standing as it does between a rising China and a not so strong West, Muslims of India can make significant contributions to its success. They belong to the East, but they have enough contacts with the West to feel its pulse and respond to its impulses.

One useful lesson an uplifted and regenerated Indian Muslim community can teach is that it is possible to live a free and culturally satisfying life without dominating anybody (provided you too are not being dominated by anybody). To be able to do so they will first have to build an India where no community desires to subjugate any other community as all agree to coexist in a secular, plural democracy that affords maximum cultural autonomy to its ethnic, linguistic and religious constituents. That presumably is the dream the framers of the Constitution of India had. Let it be. Muslims of India should have no problem endorsing that dream as it alone, among possible alternatives, affords the maximum leeway to Islam i.e. freedom to live Islamically and preach Islam to a people who fear no persecution -- the fitnah referred to in the Quranic verse many wrongly construe to be an order to fight for domination everywhere all the time. (7)

Also, it is only in a democracy that Indian Muslims have the best chance of promoting their economic model, including interest free finance. Secularism with its special meaning in India (which can not and should not be equated with the meaning it acquired a couple of centuries ago in Europe), democracy as enshrined in the Constitution of India, and globalisation which is inevitably being adopted by entire humanity in the wake of the revolution in information and communcation, vastly improve the chances of Indian Muslims performing as inidicated above: a model of Islamic living amongst what for the time being is an overwhelmingly non Muslim majority. Such also is the situation of Muslims in the world at large. We invite Muslim intellectuals, especially those outside India, to pay to this parallel the attention it deserves. They may be missing out on something important by not doing so.

Look East Too

The last point I would like to make is the need to get rid of our obsession with the West and find time to look East also. We have heard enough about what the West has done to us - colonisation, cultural destruction, religious aggression, economic exploitation etc. We have also been filled with sermons on what we must do to the West -- shun it, condemn it, unlearn its ways and gang up against it, etc. Time is taking care of what is exaggerated or outdated in this approach. We can hardly improve on it. Bu, we do feel that unlike early Islam when the Muslim awareness of China and later on of South East Asia was second to none, the last couple of centuries has drawn a blank. We do not know much about what is happening east of India, what we cget out of it and whether there is some possibility of our contributing something to the felicity of eastern humanity. The East is already reaching out. If we fail to wake up, respond! , act and interact, it will be to our own disadvantage. But it is coming. We find increasing interaction between India and the East and, in its wake, greater attention of Muslims to the East. The softer, lighter, religiousity of the East (not necessarily less genuine in its spirituality or morality) would serve as a needed antidote to some of the harsher overtones of the recent Islamic Movements (which mostly drew inspiration from an entirely different environment). That would be better suited to India if and when sanity is restored as the Hindutva wave ebbs out and the friendly climate of the Gangetic plain once again reasserts its eternal impulse of tolerance and accommodation.

Conclusion

We wish to conclude on what we started with. Indian Muslims in the twenty first century will be to a large extent what they work for i.e., what they really want to be. They have a right to high aspirations. They can even be optimistic. But they need take concrete steps for eradication of poverty, removal of illiteracy, moral orientation and economic uplift. The road may be long and difficult but one step at a time, which every Muslim in India takes and not only a few activists, can one day make a difference. Work, earn, learn, save, invest in your future by raising healthier, more educated and better behaved children and help your brothers and sisters do the same. This is the agenda for the individual, every individual. For social organisations the message is to focus, for the time being, on the poorest and the weakest. Attend more to primary education, adult literacy, cleaner neighborhoods, teaching basic hygiene ! to every one and providing all with the means for elementary health care. Religious movements should please note that doing all this is not materialism, it is not dunya. Rather it is building the necessary infrastructure for deen. The physical requirements for morally good life are no less important than morality itself. This is where we start, saying: "Our Lord bestow upon us in the world that which is good and good in the life hereafter and guard us from punishment with Fire." (2:201)

As we argued in the opening paragraph the conditions of other Muslim minorities are different but their agenda for the coming century need not be very different. This conclusion is based on the similarity of their normatively prescribed role and the fact that, everywhere, that role calls for educational and economic uplift (preceded by eradication of poverty and illiteracy). This also seems to be the last defence against majority chauvinism in its different hues.

* Inputs from Ausaf Ahmad and a number of intellectuals at Jeddah are gratefully acknowledged.

Footnote

1. Nepal, Bhutan, Mangolia, Combodia, Laos, Taiwan, South Korea and Japan, etc.

Besides India with a 12%, Muslim population, these are Mauritius, Singapore, Mynamar and Sri Lanka with Muslims consistuting 18, 16, 10 and 8 percent of the total population respectively. One should add the Philippines and Thailand to this list, Muslims constituting 5 and 4 percent of the total population respectively, but their concentration in certain areas adds extra significances to their presence. [Tashkandi, 1992]

3. Keynea, Liberia, Tanzania, Ivory Coast, Ethiopia, Ghana and the Democratic Republic of Congo have Muslim minorities ranging from 35 to 10 percent, followed by Uganda, 6% of its population being Muslim [Tashqandi, 1992]

4. This cautious guess should be acceptable. A recent survey by the National Council for Applied Economic Research "reveals that 39 percent of the rural population in the country is living under the poverty line or earning less than Rs. 2,444 per capita a year. It may be recalled that the Planning Commission about a year ago had claimed that the population living below the poverty line was only 19 percent and not 36 percent. However it had to retract subsequently" Saudi Gazette (Jeddah) December 5, 1996, page 8.

5. 16 May 1996 to 28 Feb 1996.

6. Samul P. Huntington's thesis (in Foreign Affairs, 72, Summer 1993, pp. 22-49) under the title "The Clash of Civilizations" later elaborated into a book. The Clash of Civilisations and the Remaking of World Order Simon and Schuster, 1996, is surprisingly touching a responsive chord in a fairly wide circle of intellectuals.

7. Verse 193 of Sura 2 meaning "And fight them until persecution is no more and religion is for Allah. But if they desist then let there be no hostility except against the wrong doers" (The glorious Quran, M.M. Pickthall) The word fitnah, translated as "persecution" by Pickthall, has been rendered as 'oppression' by Mohammad Asad and "Tumult and oppression" by Abdullah Yusuf Ali. It is clear that no hostility or fight is called for whereever and whenever it is possible for anyone to embrace Islam and live by it without fear of being subjected to persecution or oppression. Muslims can coexist with others indefinitely in such an environment, living Islamically, calling others to the religion of Allah.

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